COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SOUTH CENTRAL BELL TELEPHONE COMPANY'S PROPOSED AREA CALLING SERVICE TARIFF	)	CASE NO. 91-250

O R D E R

PROCEDURAL BACKGROUND

South Central Bell Telephone Company ("SCB") filed a proposed tariff for Area Calling Service ("ACS") on July 30, 1991. The following are parties: MCI Telecommunications Corporation ("MCI"); AT&T Communications of the South Central States, Inc. ("AT&T"); AmeriCall Systems of Louisville ("AmeriCall"); the Attorney General, by and through his Utility and Rate Intervention Division ("AG"); the Shelby County Chamber of Commerce; and a subscriber named Mary Alice Higdon. A hearing was held on November 21, 1991. Initial briefs were received on December 9, 1991 and reply briefs on December 16, 1991. SCB's reply brief contained new information which could have been produced at the hearing. Therefore, comment time has been extended beyond the usual 5 months. The AG requested an opportunity to update exhibits and to conduct additional discovery. Accordingly, the Commission established a procedural schedule, including an opportunity to file written comments on SCB's reply brief. The record in this case was complete on March 16, 1992 with the filing on SCB's response to the AG's comments.

The Commission has received a large number of letters from various subscribers urging approval of SCB's tariff filing. Inquiries have been received from persons residing in exchanges for which SCB has not even proposed this tariff.

At the hearing, testimony from private citizens was overwhelmingly in favor of SCB's ACS plan. There were two dissensions[1] which expressed concern over SCB's potential profit from the plan and the resulting restraints on competition from the interexchange carriers (IXCs).

SCB'S PROPOSAL

ACS proposes to address the needs of customers residing in 22 exchanges of SCB's service territory. SCB selected these 22 exchanges based on research it contracted from the Urban Research Institute of the University of Louisville. SCB proposes to address the local calling needs in the following areas: Corbin, Lebanon Junction, Spencer County, Trimble County, Hancock County, and Crittenden County. The specific exchanges are listed in Appendix 1. SCB stated that at a later time other current local calling areas may be extended to include exchanges where there is a demonstrated community of interest.

As is done currently in existing local calling areas, it is proposed that all calls within the extended local calling area will be made on a 7-digit basis. As proposed, customers would have a choice of three service options.

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1 Transcript of Evidence ("T.E."), Vol. I, pages 8-15.

1. <u>Existing Flat Rate Option ("Option 1")</u>. The flat rate service option would allow customers to maintain their existing local calling area at their existing flat rate. Calls to the extended calling areas would be charged usage rates equal to those in the toll tariff for comparable distances.

Usage rates would be rated on a wirecenter-to-wirecenter basis, as opposed to a ratecenter-to-ratecenter basis. For most SCB customers, though not all, this means that the distance used to calculate a usage charge would be less than is currently the case. Each ratecenter contains one or more wirecenters. Under the present system, the mileage charge of a toll call made between two adjacent wirecenters is based on the distance between the ratecenters which serve the two wirecenters. Under the proposed system, the mileage for the toll call would be based on the mileage between the two wirecenters.

2. <u>Local Measured Service Option ("Option 2")</u>. The local measured service ("LMS") option would allow customers to call anywhere in the newly designated calling area (the existing local calling area plus the extended calling area) at usage-based rates priced substantially below current toll rates. These customers would also pay a flat rate access charge. A cap would be placed on the total amount a customer may be billed for usage charges for calls within the existing local calling area. The proposed usage charge cap is $12.50 for all residential customers and $25.00 for businesses. Therefore, the maximum bill a residential customer could expect for calls made within the existing calling area is $20.50 in rate bands 1-4 and $22.00 for rate band 5. The maximum

bill a business could expect is $52.00 in rate bands 1-4 and $58.00 in rate band 5. Finally, this service would be available to all customers except those with two-party service, shared-tenant service, company-owned or customer-provided public telephone service subscribers.

3. Premium Flat Rate Option ("Option 3"). The premium calling service option would only be available to residential customers. Customers choosing this calling option would be able to call any location in their full local calling area. All calls within the full local calling area would be made on a flat rate basis. The flat rate would be set at $28.00 for rate bands 1-4 and $29.50 for rate band 5 (the Louisville area).

Non-SCB Exchanges

Certain exchanges mentioned in SCB's proposal are served by telephone companies other than SCB; specifically, the London, Barbourville, Elizabethtown, Loretto, and Lebanon exchanges are served by GTE South Incorporated ("GTE"), the Mount Washington and Shepherdsville exchanges are served by Alltel Kentucky, Inc. ("Alltel"), and the Lewisport exchange is served by the Lewisport Telephone Company, Inc. ("Lewisport"). Under SCB's proposal, subscribers selecting Option 2 or Option 3 would have those non-SCB exchanges incorporated into their full local calling area. The customers in the other companies' exchanges would not be eligible to use those options for calls to the SCB exchanges unless those telephone companies also propose to offer these options. SCB included these exchanges because of the existence of sufficient communities of interest. See Appendix 1.

SCB proposed to offer ACS in the Georgetown and Midway exchanges in an attempt to address community of interest with the Lexington area exchanges. The Commission has addressed these concerns in Case No. 91-149[2] and to that extent SCB's proposal is moot.

AG'S PROPOSAL

In response to SCB's plan, the AG proposed his own plan which sought to address some of the AG's problems with SCB's plan.[3] First, the AG did not oppose extended area calling in concept and recommended that if an optional EAS rate structure were to be offered, it should put no upward pressure on existing local rates. Second, a flat rate EAS option should be offered to residential customers.[4] Third, if a measured EAS option were to be offered, it should be available with the flat rate local service option. Finally, the revenue requirements for each extended calling plan alternative should be the basis on which the rates will be established.

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2 Case No. 91-149, Inquiry Into the Community of Interest and Affect Thereof Between the Areas of Georgetown, Kentucky and Lexington, Kentucky.

3 T.E., Vol. I, pages 115-116, and the AG's Witness Prefiled Testimony, pages 5-6.

4 It is important to note that SCB's witness addressed this point in T.E., Vol. I, page 148, when he maintained that the inclusion of the price cap on the local portion of the LMS option is an effective flat rate of $20.00. However, viewing the LMS option in this manner raises doubts as to whether the flat rate access portion of the LMS tariff has been priced appropriately, as set out in the Administrative Case No. 285 Order.

PRIOR REGULATORY ISSUES RAISED BY SCB'S PROPOSAL

SCB's proposal raises three major policy issues, which the Commission has considered in prior administrative proceedings. These are:

1. Extended area calling service and the guidelines set forth in Administrative Case No. 221.[5]

2. Local measured service and the conditions for approval of LMS contained in Administrative Case No. 285.[6]

3. Whether the Commission can revert to the monopoly provisioning of service subsequent to authorizing toll competition, which was considered in Administrative Case No. 323.[7]

DISCUSSION

Community of Interest, EAS Guidelines, and Local Calling Areas

SCB's proposal necessitates reconsidering the issue of community of interest determination; that is, what type of communities must exist between areas to sufficiently support extending the local calling area.

In response to numerous requests from subscribers, the Commission in 1980 conducted a proceeding, Administrative Case No. 221, Extended Area Telephone Service, to determine whether the

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5 Administrative Case No. 221, Utility Regulatory Commission Guidelines for Consideration of Requests for the Establishment of Extended Area Service, Appendix A.

6 Administrative Case No. 285, An Investigation Into the Economic Feasibility of Providing Local Measured Service Telephone Rates in Kentucky, Order dated October 25, 1990.

7 Administrative Case No. 323, An Inquiry Into IntraLATA Toll Competition, An Appropriate Compensation Scheme for Completion of IntraLATA Calls by Interexchange Carriers, and WATS Jurisdictionality, Order dated May 6, 1991.

Commission should adopt guidelines or procedures for processing requests for extended toll-free calling.[8] By Order dated October 31, 1980, the Commission adopted guidelines for Extended Area Telephone Service to apply to all future EAS requests. The guidelines are limited to two-way non-optional service between entire exchanges under the Commission's jurisdiction. The guidelines also state that EAS will only be provided where there is a demonstrated community of interest between exchanges, where the relevant costs have been determined, and where appropriate customer surveys have indicated a clear willingness to pay any higher local rates that result from the establishment of the service.

The minimum criteria are, generally, an average of at least 4 calls per line per month from the petitioning exchange to the desired exchange and an average of at least 2 calls per line per month from the desired exchange to the petitioning exchange. In addition, at least 50 percent of the subscribers in the petitioning exchange should make at least 4 calls per month to the desired exchange and at least 50 percent of the subscribers in the desired exchange should make at least 2 calls per month to the petitioning exchange.[9] This criteria is used to help determine if a majority of subscribers in the desired and petitioning exchanges

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8 See Utility Regulatory Commission Guidelines for Consideration of Requests for the establishment of Extended Area Service in Administrative Case No. 221, Appendix A, page 9.

9 See Page 1-1, Tab 6, Attachment 1 of SCB's July 12, 1991 filing.

will vote to approve the expansion of the local exchange to include the petitioning exchange with the desired exchange.

SCB argues that simply counting the numbers of calls between two exchanges does not accurately portray whether or not enough of a community of interest exists to warrant expanding the local area service.[10] Besides the number of calls made between two areas, call duration, the time of day in which the call was made, and the call distance should also be included as relevant measures of communities of interest. Neither these factors nor the existing call pricing structure is taken into account under the last EAS guidelines issued by the Commission.

In a study conducted by the Urban Research Institute at the University of Louisville for SCB, filed with the Commission in Case No. 91-149 and incorporated by reference in this case, the concept of community is defined as a geographical entity capable of supporting itself. Communities are also defined as social ties between individuals.[11] SCB used these two community defining concepts in deciding how local area service territories should be expanded. In SCB's study, societal relationships generally reflect county boundaries and encompass such things as the use of emergency and essential services, access to other services provided by public and private institutions and infrastructure

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10 See Page 1-2, Tab 6, Attachment 1 of SCB's July 12, 1991 filing.

11 "Community of Interest and Extended Area Service, A Review of the Literature and State Regulations," Urban Research Institute, February 1991, filed in Case No. 91-149 on June 14, 1991.

factors, such as highways and airports. Economic relationships encompass such things as where people work, shop, and where they conduct the myriad other activities that characterize their daily lives. Geographic relationships encompass such things as contiguous calling areas and the relative proximity of other calling areas.[12]

MCI and AT&T questioned SCB regarding the appropriateness of altering the methodology employed for determining whether or not a community of interest exists and extending local area service to other exchanges. Both companies reject SCB's methodology and maintain that the current EAS guidelines are adequate for addressing community of interest concerns.[13] SCB argued that current EAS guidelines do not adequately address community of interest needs and that the process is necessarily subjective, since the process is customer driven.[14] MCI, AT&T, and the AG moreover stated that any shortcomings in the present system could also be addressed by lowering toll rates. While SCB does not deny that lower toll rates would help alleviate problems, SCB maintains that it would not entirely solve the problems.

The current EAS guidelines have been impossible to meet. It has never been true that more than 50 percent of all subscribers affected desire to pay additional cost for the service. It has

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12 Pages 1-3, Tab 6, Attachment 1 SCB filing July 12, 1991.

13 T.E., Vol. I, pages 77-80, and 178-180. See also the testimony of MCI's witness and AT&T's witness Vol. II, pages 54 and 108-110, respectively.

14 See T.E., Vol. I, pages 51-53, 77-80 and 179, respectively.

generally been the case that the customers in the larger area refuse to pay the additional charge to call the smaller area. Accordingly, from the point of view of residents seeking inclusion in a local calling area, the current process is not working.

The Commission finds that current EAS guidelines are not adequate when approaching the question of defining and demonstrating communities of interest and expanding the geographic boundaries of a local calling area. Current EAS guidelines notwithstanding, the evidence presented in this case has demonstrated that there are sufficient grounds for expanding some of the local calling areas in Kentucky. Changes in technology and customer expectations have caused the reconsideration of existing guidelines in favor of more flexible but demonstrated presentations of community of interest. The Commission will no longer expand local calling areas only pursuant to predetermined levels of call volumes as contained in the existing EAS guidelines.

Wirecenter Pricing

A plan to rate calls on a wirecenter-to-wirecenter basis, rather than on a ratecenter-to-ratecenter basis, has merit. For many customers, though not all, the change in rating will mean that their measured calls will be calculated on the basis of shorter distances, thus reducing the cost of the call to the customer. This method of rating is used by the IXCs currently and will benefit SCB's business customers as well as residential.[15] The Commission will approve this rating change.

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[15] T.E., Vol. II, pages 36-39.

Local Measured Service

In the Administrative Case No. 285 Order dated October 25, 1990, the Commission addressed the issue of LMS and established criteria which must be met in order to offer LMS in an exchange. In that case, GTE and SCB submitted cost/benefit analyses which supported the implementation of LMS. The Commission evaluated the analyses on the grounds of economic efficiency, universal service, and equity. The Commission found that LMS was supported on the grounds of universal service, marginally supported on the grounds of economic efficiency, and that LMS may contribute to increased equity among customer sub-groups,[16] but only on an optional basis. The Commission's findings were:

1. Rate caps should not be applied to LMS but, if proposed, should be justified on cost or equity grounds and should significantly exceed the flat rate. Further, the number of options provided to the residential customer should be limited to one LMS plan.[17]

2. LMS must be optional. The rates for flat rate service will not change as a result of a carrier providing LMS.[18] The Order goes on to state exactly how this revenue neutrality is to be achieved. LMS must be a self-supporting option, the

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16 Administrative Case No. 285, Order dated October 25, 1990, page 18.

17 Id., page 26.

18 Id.

existing flat rates should not be increased due to a shortfall in revenue from LMS.[19]

3. Rate groups based on the size of the local calling area should continue to be recognized in the design of their optional LMS rate structures.[20]

4. All LMS tariffs must include a zero rating element in the off-peak period. The on-peak prices should be based on incremental costs.[21] The measured rates should be free at the off-peak time, generally nights and weekends.

5. The issue of linkage between an LMS proposal and another flat rate proposal such as the premium option in this case was not specifically addressed. However, the Commission did require LMS proposals to be addressed in the context of equity considerations and revenue neutrality. An important equity consideration should be the avoidance of unreasonable and precipitous redistribution of revenue requirement among subscribers.[22]

On rehearing the Commission stated that if measured service is tariffed as a local service offering, it must be confined to local calling areas where it is technologically available.[23]

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19 Id., page 27.

20 Id., page 28.

21 Id.

22 Id., page 15.

23 Administrative Case No. 285, Order dated December 4, 1990, page 4.

Although the AG proposes the current flat rate plus measured rates for the extended areas, he objects to SCB's plan to set up a separate LMS rate and link the LMS revenue requirement with the other options. The AG maintains that SCB's plan unnecessarily links several different plans into one overall proposal.[24] This is consistent with the AG's view in Administrative Case No. 285.[25] Specifically, the AG believes that SCB should not be allowed to link existing local exchange LMS in order for a subscriber to obtain EAS. As set forth in the Order of October 25, 1990 in Administrative Case No. 285, the AG states that LMS should be revenue neutral on a stand-alone basis. Under SCB's proposal, revenue neutrality is achieved only by linking existing local exchange LMS with EAS. It is the AG's opinion that the linkage of the three options allows the LMS option to be priced below its revenue requirement while the flat rate premium calling option is priced above its revenue requirement. The AG's final criticism of the LMS option is that in order to get measured rate EAS, customers must subscribe to LMS.

Even though SCB's LMS tariff proposal does not adhere to all of the requirements of Administrative Case No. 285, the Commission concludes for reasons stated herein that the LMS option should be approved. SCB proposes rate caps for the LMS Option 2 customers that would limit their bill for calls within the existing local

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[24] See AG's prefiled testimony, pages 3-4, and T.E., Vol. I, pages 113-114.

[25] In Administrative Case No. 285, Order dated October 25, 1990 pages 12-13, it is noted that the AG felt that LMS should be considered as a separate issue.

calling area. The rate cap appears to be primarily a short-term marketing tool. Since there are costs to repeatedly switching calling options, customers considering alternate calling options should not be faced with unnecessary short-term price distortions. As discussed later in this Order, the Commission will require a service order charge for customers changing calling options. Subscribers should be able to make decisions concerning calling options based upon not only their own calling habits but also upon the charges involved in switching among options. With the availability of Option 3, those subscribers desiring to cap their usage charges will be able to do so. There is no need to allow a rate cap on Option 2 which may be short-term, and which may encourage subscriber calling-option decisions which may be illusory.

SCB's plan satisfies the condition in Administrative Case No. 285 that only one measured service option be offered to consumers. The current LMS customers are grandfathered and SCB's Option 1 customers have measured usage at the current toll rates to the extended area of the local calling area.

SCB's tariff filing violates the requirement in Administrative Case No. 285 of zero off-peak pricing. For local calling area calls extending less than 17 miles from the wirecenter, the rate is $0.03 for the first minute and $0.02 for additional minutes. For calls extending 17 miles and beyond, the maximum rate is $0.045 for the first minute and $0.035 for additional minutes. As evidenced, these rates are very low compared to current toll rates. The intent of the zero rate requirement in Administrative Case No. 285 was to shift calls from the on-peak period to the off-peak period. However, requiring a small charge for off-peak usage acknowledges the fact that customers place value on these calls, and SCB is entitled to a portion of that value in return for rendering a service. Thus, this proposal is justified and does not deviate from the intent of that Order.

Finally, and most importantly, Administrative Case No. 285 prohibits LMS from placing upward pressure on existing rates, in that revenues obtained from one calling option may not be used to satisfy the revenue requirements of another option. However, this linkage prohibition does not preclude a company from simultaneously submitting two or more tariff filings to the Commission. Cross elasticities between separate tariff filings impacting each other will be present, and reflected in the price-outs, regardless of whether the tariff is filed separately or in conjunction with others. In order to more accurately estimate the revenue effects of any given tariff filing, consumers must be allowed to consider all existing and hypothetical options being proposed at any one time. Therefore, the Commission will consider SCB's tariff filing as a whole and not as three separate stand-alone plans, as the AG proposed.

Future problems may arise as a consequence of the different calling plans. Consumers choosing to remain with their existing service option charges should be protected from future access charge rate increases deriving from a revenue requirement deficiency due to the LMS option and the premium flat rate option.

SCB should not be permitted to return to the Commission at a later date requesting a rate increase for the existing local calling area customers because of incorrect pricing of the other two options or because of a decline in customers in the existing local calling area resulting from incorrect pricing of the other two options.

Moreover, this requirement mitigates the problem of linkage. The customers who choose either the Option 2 or Option 3 rate plans are the ones who will pay to utilize those plans for calls within the extended calling areas. Customers who remain with their current service under Option 1 will not pay additionally for these choices since their service remains basically unchanged.

SCB's proposal, as modified herein, provides customers with a wide range of choices. Customer choice is a significant equity consideration and is becoming more common in many industries; for example, health insurance options and employee benefit packages tailored to the individual's needs are becoming commonplace. The Commission finds this plan, as modified herein, to be more advantageous to SCB's customers than the AG's proposal and is in keeping with the basic intent expressed in Administrative Case No. 285.

<u>Toll Competition and SCB's Proposal</u>

SCB's ACS proposal would recapture certain portions of the intraLATA toll market and authorize traffic to be provided on a local monopoly basis rather than through competitive toll. This policy issue was addressed in Administrative Case No. 323, Phase I.[26] All parties were requested by the Commission to address the issue as to whether the Commission could require that a portion of intraLATA toll traffic be returned to a LEC to expand the LEC's local calling area after the implementation of intraLATA competition. AT&T, MCI, US Sprint, Cincinnati Bell, and SCB all agreed that the return of a portion of intraLATA toll traffic to the exclusive domain of the LEC does not constitute confiscation with regard to any IXC. The Commission's authority to require carriers to provide service in an economical manner consistent with public interest would therefore leave the Commission with the option to revert an area previously subject to toll competition to the exclusive service by a LEC. Accordingly, approval of the ACS tariff would not be inconsistent with opening the intraLATA toll market for IXC competition.

SCB maintained that it should be the only carrier authorized to provide service to these areas since they would be defined as local calling areas to which it should have exclusive rights. SCB further maintained that 7-digit dialing should be allowed and restricted to the local carrier in these areas since that is the manner in which customers place local calls within their local calling areas.

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26 Administrative Case No. 323, Order dated May 6, 1991, pages 4-6.

In defending its position, SCB never denied that toll rates need to be lowered,[27] but maintained that its proposal better addressed customer needs based upon the grounds of fairness, communities *of interest and efficiency* while preserving the concepts of revenue neutrality.[28]

In addressing the issue of intraLATA competition, the AG maintains that SCB should be prevented from arbitrarily altering the methodology by which local calling areas are expanded. Specifically, the AG objected to SCB's plan to change the traffic rating from toll to local in the extended calling area.[29] In the AG's opinion, allowing increased local calling areas would significantly reduce the amount of territory that will be opened to competition through the Commission's decisions in Administrative Case No. 323, Phase I. The AG maintained that 7-digit dialing should be disallowed in the expanded areas.[30] Restricting 7-digit dialing to SCB potentially could place the IXCs at a competitive disadvantage since customers must use 10-XXX dialing to access their long distance carrier. Conventional wisdom states that callers' perceptions concerning how easy it is to place a call is directly tied to the number of digits that must be dialed.

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27 See for example, T.E., Vol. I, pages 84-85.

28 T.E., Vol. I, page 143.

29 See the AG's witness prefiled testimony, pages 3-4, and T.E., Vol. I, page 113-114.

30 See AG's witness prefiled testimony, pages 16-17.

MCI and AT&T both agreed with the AG's position concerning competition and maintained that competition was going to be restricted in the exchanges that would be included in SCB's newly defined local calling areas. Both companies objected to potentially having 10-XXX dialing blocked in the extended local calling areas, since these areas are opened to intraLATA competition with the implementation of Administrative Case No. 323. SCB did not dispute that this was the case. SCB's proposal promulgated in its tariff filing contains an interpretation consisting of four components. First, with Commission acceptance of the need to extend existing local calling areas to include other exchanges, the new local calling area will be designated the full local calling area. Second, there will be three local calling options within the full local calling area: the existing service option (Option 1), a usage rate option (Option 2), and a flat rate option (Option 3). It is important to note that the flat rate calling option is only open to residential customers. Third, all revenue generated from the three local calling options will be accounted for as local revenues. Fourth, SCB will be the only carrier authorized to carry traffic within the full local calling area.

The most important aspect of this interpretation of the tariff filing is that SCB will have retained (or recaptured) a large portion of the geographic area that would have been subject to intraLATA competition. It is noted that a consumer opting to retain his existing service option, Option 1, is made no worse off than before the plan. This is because a call made by a customer selecting Option 1 to an exchange outside the existing local calling area would have the same usage rates. The only difference is that either SCB or an IXC, respectively, will receive the revenue. *In this interpretation,* the Commission, not consumers, determines the geographic boundaries of local calling areas.

The Commission is aware that expanding local calling areas, in the manner proposed by SCB, would prevent IXCs from competing in geographic areas that are open to intraLATA competition vis-a-vis Administrative Case No. 323.

SCB's proposal to recapture calling areas which are now open to toll competition is not acceptable. SCB's ACS proposal will be modified to allow those calling areas now subject to competition to continue such competition. Some customers, though not all, may choose to have their existing local calling areas expanded to include the extended calling areas. Of the three options, there will be two new local calling options available to these SCB customers. The LMS rates are substantially below intraLATA toll rates for all calls within the full local calling area. Also, residential customers may opt to pay a flat rate for all calls within the full local calling area. SCB will be the only carrier authorized to carry traffic within the customer designated local calling areas on a 7-digit dialing basis.

The IXCs should be blocked from competing for any customer's calls within the existing local calling area. For those customers choosing calling Option 1, the IXCs will be able to compete for calls extending beyond the existing local calling area. For those customers opting for either calling Option 2 or Option 3, the IXCs will not be blocked from competing for customers for calls terminating in the extended portion of the full local calling area. The Commission recognizes that there are high volume business customers whose needs extend beyond voice grade service options and these needs are not adequately addressed by prohibiting competition.[31] Those business customers should have the availability of connection for those services from the IXCs between the existing and extended calling areas.

<u>7-Digit Dialing</u>

The technology to provide 7-digit dialing is already available in SCB's current telecommunications environment and should be allowed. The stored program control switch that services each exchange is basically a computer which is capable of being programmed to provide special features to a telephone number associated with a specific access line. This means that for the customer who selects either Option 2 or Option 3, the computer can be programmed to allow the customer to dial a 7-digit number within either the existing or expanded calling area. Not only will it be unnecessary to dial any preceding number such as 1+ or 10-XXX, but each call to the expanded calling area can be measured and recorded in accordance with the customer's selection of Options 2 and 3, and call detail provided according to the customer's selection of that option.

The customer who selects Option 1 will require no programming change to the computer. That customer's calls outside of the

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31 See, for example, MCI's comments, T.E., Vol. II, page 55.

existing calling area will continue to be made exactly as they are made currently, including 10-XXX calls made to access their long-distance carrier of choice. Although it would be technically possible to provide 7-digit number dialing for all customers to the expanded calling area, the Commission finds that this is not a practical approach, since customers who select Option 1 would not expect to pay toll charges for 7-digit calls. The Commission further finds, however, that customers selecting Option 2 or Option 3 should have the convenience of 7-digit dialing to their respective expanded calling areas.

An ancillary issue raised by the plan is the reclassifying of local and toll revenues. Part 32 describes local revenues as those which are derived from the provision of basic area message services, such as flat rate services and measured services, including revenue derived from non-optional EAS. On the other hand, toll revenue is defined as revenue derived from message services that terminate beyond the basic service area of the serving wirecenter. This also includes revenue derived from calling plans, such as discounted long distance, which do not utilize dedicated access lines, as well as those priced at the basic long-distance rates, where a discounted toll charge is on a per message basis. Part 32 speaks to a single basic service area, whereas the plan contains two overlapping basic service areas. Thus, all SCB revenues derived from Option 2 and 3 customers for calls dialed on a 7-digit basis under the plan should be classified as local. All SCB revenues derived from Option 1 calls on a non-7-digit basis would remain classified as toll.

The Commission's approval of this ACS plan is based to a large degree on a community of interest determination, and to the extent that ACS provides economic development benefit and convenience to customers in those areas, the technologically available ability to provide 7-digit dialing should not be denied. This technology was not available at the time of the development of the Commission's existing EAS Guidelines, a further factor which supports the Commission's decision that the EAS Guidelines are no longer adequate when approaching the issue of expanding calling areas in response to the issues of community of interest determination.

Business Flat-Rate Premium Service

SCB's proposed tariff filing does not offer a flat-rate premium service under Option 3 for business line subscribers. The primary reason appears to be the potential revenue loss to SCB for businesses with large volume usage. The other reason appears to be the difficulty in developing different flat rates for different types of business customers.[32] SCB acknowledged that it would be possible to develop business flat premium service rates, but proposed that it be done on an experimental basis utilizing subscriber data from a few selected exchanges.[33] Secondly, SCB felt that offering the premium service to business, as well as

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32 T.E., Vol. I, pages 56-57 and 203-206, Vol. II, pages 4-13.

33 T.E., Vol. II, pages 4-9.

residential, customers could strain the physical capacity of its current plant.[34]

The Commission is aware that such business premium rates must be carefully developed. However, one of the Commission's goals in approving ACS is to maximize the economic and societal benefits which may be derived from the expanded calling areas. Properly developed premium rates for business subscribers under Option 3 should provide flexibility to the business line subscribers which will assist in that goal. Residential subscribers should also be allowed to benefit from the ability of business users to expand their calling area at a rate certain.

The Commission therefore finds that SCB should develop and file proposed flat-rated premium rates for business line subscribers for all exchange areas incorporated herein within 120 days of the date of this Order. SCB should also file the information and data used to develop these proposed rates. This filing should also include all of the exchange areas incorporated in the approved ACS plan.

Non-SCB Administered Exchanges

SCB has included certain independent telephone company exchanges in its expanded local calling areas. There has been no indication from either SCB or the other companies that they have entered into agreements concerning the expansion of local calling areas. The record in this case does not indicate the types of

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34 T.E., Vol. I, pages 196-200.

access charges or the total cost SCB will employ or expend to reimburse these independent companies.

Prior to implementing any ACS which may impact proposed independent company exchanges and within 120 days of the date of this Order, SCB shall file information concerning agreements it has worked out with each of these independent companies, including the terminating access charges it proposes to use and the total cost by exchange.

SCB's Forecasts and Prices

The adequacy of SCB's forecasts and resulting prices must be addressed. The AG expressed reservations concerning the assumptions used by SCB in its forecasts. SCB concedes that some assumptions used in the studies were derived using North Carolina and Alabama data. The AG further expressed concern that it appears that other assumptions were applied on a more arbitrary basis. The AG and AT&T expressed concerns that SCB's plan was price discriminatory.[35] Specifically, AT&T argues that its rates for access are higher than SCB's LMS rates. AT&T goes on to question SCB's methodology used to establish LMS rates and implies that SCB should be subject to imputation of access charges. This is inappropriate since LMS is a local service and Administrative Case No. 323 limits imputation to the provision of toll services.

The Commission recognizes that SCB did not have sufficient Kentucky-specific data to use in its forecasting and pricing

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[35] See the Prefiled Testimony of the AG's witness, pages 16-17; and AT&T's witness, pages 10-12; and T.E., Vol. II, pages 108-109.

models. However, the Commission is concerned with SCB's forecasts and prices. Given that more detailed Kentucky-specific data cannot be obtained until after the plan has been in place in Kentucky, the Commission will not currently alter the prices. The Commission will, however, require that SCB submit a new forecast and any changes in prices resulting therefrom using 12 months of Kentucky-specific data. This should be filed 15 months from the date the plan is initiated.

Customer Selection of Calling Options

SCB has proposed that there be no service order charge for selecting a service option and places no restrictions on the frequency of option changes. This proposal is unreasonable. SCB shall assess the service order charge for each option change. This will ensure thoughtful cost consideration by customers. Further, service options may only be changed once per billing cycle. The Commission recognizes that there may be customer confusion with regard to the three calling options and finds that there should be a 90-day grace period within which customers may make unlimited option changes without incurring a service order charge.

Billing Format Under SCB's Proposal

The customer billing format will necessarily be changed depending on the type of service chosen. Customers' bills choosing the flat rate service option of the premium calling service option will need to contain calling details for all toll calls. As proposed, customers choosing the LMS option would be charged for billing detail on all usage-based calls. With this option, call message detail would only be provided to the customer for a fee. This is unreasonable. Customers desiring billing detail should incur no additional charge for such detail. Those customers willing to forego billing detail should receive a discount on their access rate. SCB may alter its Option 2 rates to account for this slight differential. SCB shall file a proposed discount and a cost study to justify the changed rate.

Another billing issue arises for customers who currently subscribe to grandfathered LMS and currently get message detail. Under SCB's proposal these customers would not be able to obtain bill detail sufficient to show the separate origin of usage-based charges in the existing local calling area and the extended calling area portions. SCB's proposal on this issue is sufficient. The information will be presented on the bill to allow a customer to determine the origin of the calls.

In an effort to reduce customer confusion resulting from approval of SCB's proposal, as modified herein, the Commission finds that SCB should include a bill insert explaining the ACS options, rates, service charges, and billing options prior to implementing the tariff.

The Commission, being otherwise sufficiently advised, HEREBY ORDERS that:

1. SCB's tariff proposal is approved as modified herein.

2. The criteria used by SCB to establish a community of interest between calling areas within the context of this proceeding is approved and will be considered in future proceedings of this nature.

3. The extension of services to include the full local calling area is approved, except for those exchanges served by non-SCB administered exchanges. Within 120 days of the date of this Order, SCB shall file information for all the proposed exchanges served by non-SCB administered exchanges including copies of agreements it may have with independent telephone companies, the terminating access charges it proposes to pay the independent telephone companies, and the total expected cost to SCB by exchange.

4. Within 120 days of this Order, SCB shall file a proposed tariff reflecting flat rated premium business rates.

5. The rate cap associated with the LMS option is rejected.

6. SCB shall not assess a separate rate for provision of call detail to its LMS customers. Those customers opting to forego billing detail shall receive a reasonable discount on their access rate. SCB shall file a proposed discount within 30 days of the date of this Order. Should SCB elect to alter its Option 2 rate, it shall file a cost study to justify the change, within 30 days of the date of this Order.

7. IXCs shall be allowed to carry calls within the extended portion of the full local calling area. SCB shall not block any customer's access to any IXCs for calls originating in the existing local calling area and terminating in the extended portion of the full local calling area.

8. SCB shall modify its proposed tariff to require a service order charge for customers changing calling options at SCB current tariffed rate. Such changes shall not occur more than

once per billing cycle. SCB shall provide a 90-day period commencing with the implementation of its revised tariffs, within which customers may select calling options without limit without incurring any service order charge.

9. SCB shall gather 12 months of Kentucky-specific data as necessary to demonstrate the reasonableness and accuracy of all model forecasts and calling option prices. SCB shall file this information with the Commission within 15 months of the date of this Order, and shall also submit any proposed changes to the Option 2 or Option 3 rates.

10. Within 30 days of the date of this Order, SCB shall file tariffs conforming to the decisions contained herein.

Done at Frankfort, Kentucky, this 9th day of April, 1992.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director, Acting

The following list details the changes to current telephone exchanges as proposed by SCB:

**** The London and Barbourville exchanges are to be added to the Corbin local calling area.

**** The Elizabethtown, New Haven, and Bardstown exchanges are to be added to the Lebanon Junction local calling area.

* The Louisville, Simpsonville, Finchville, Shelbyville, Mt. Eden, Chaplin, Bloomfield, and Bardstown exchanges are to be added to the Taylorsville local calling area.

**** The Lebanon Junction, Taylorsville, Mt. Eden, Loretto, and Lebanon exchanges are to be added to the Bardstown exchange.

* The Taylorsville and Mt. Eden exchanges are to be added to the Bloomfield local calling area.

* The Taylorsville, Mt. Eden and Lawrenceburg exchanges are to be added to the Chaplin local calling area.

* The Taylorsville, Chaplin, Bloomfield and Bardstown exchanges are to be added to the Mt. Eden local calling area.

* The Louisville and Taylorsville exchanges are to be added to the Finchville local calling area.

* The Simpsonville, Shelbyville, Finchville and Taylorsville exchanges are to be added to the Louisville local calling area.

* The Carrollton, Campbellsburg, Sulphur and La Grange exchanges are to be added to the Bedford local calling area.

* The Carrollton exchange is to be added to the Milton local calling area.

* The Bedford and La Grange exchanges are to be added to the Sulphur local calling area.

* The Bedford and Carrollton exchanges are to be added to the Campbellsburg local calling area.

* The Maceo, Cloverport, Whitesville, Fordsville, Owensboro, Ensor and Habit exchanges are to be added to the Hawesville local calling area.

**** The Lewisport, Hawesville and Fordsville exchanges are to be added to the Maceo local calling area.

**** The Fordsville, Hartford, and Hawesville exchanges are to be added to the Whitesville local calling area.

**** The Whitesville, Cloverport, Pleasant Ridge, McDaniels, Habit, Hardinsburg, Ensor, Hawesville, Utica, Maceo, Lewisport and Owensboro exchanges are to be added to the Fordsville local calling area.

* The Sturgis, Fredonia, Clay and Providence exchanges are to be added to the Marion local calling area.

* The Marion exchange is to be added to the Sturgis local calling area.

• The Marion exchange is to be added to the Fredonia local calling area.

* The Nebo, Madisonville, Marion and Princeton exchanges are to be added to the Providence local calling area.

Note that **** denotes a proposed expansion which includes an exchange not administered by SCB.